

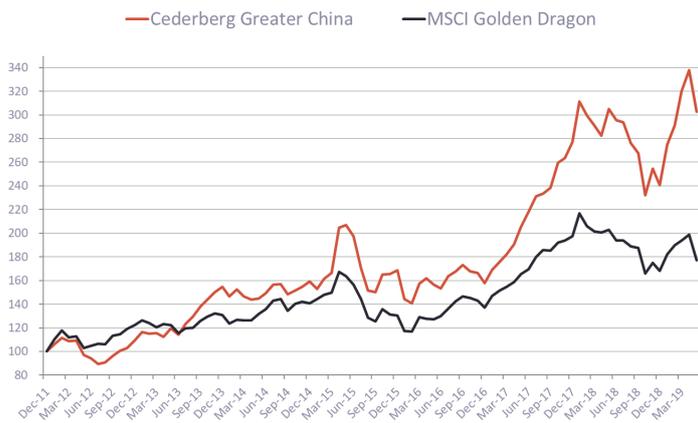
CEDERBERG CAPITAL

Cederberg Greater China Equities 31 May 2019

An introduction to Cederberg

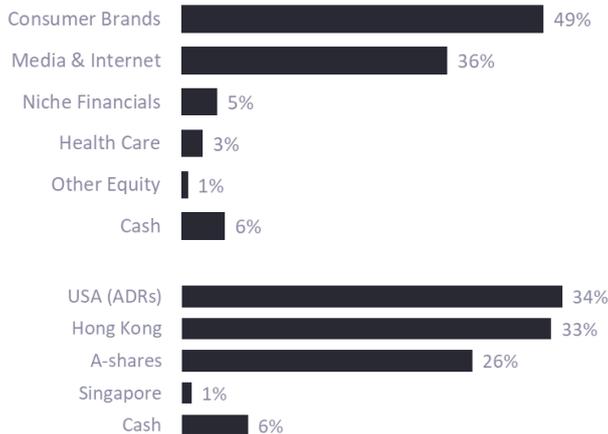
- Greater China specialists founded in 2011, majority staff-owned
- Mission: Run client money like we run our own
- Unique perspective from team in London & Shanghai
- Research-driven process focused on the region's best companies
- In every investment, we look for a durable Moat, excellent Management, and a large Margin of Safety
- We manage a high conviction portfolio of long-term winners, with low portfolio turnover

Performance chart¹

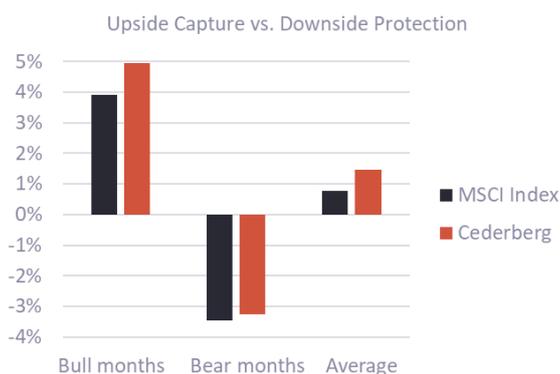


For Class A shares. All figures in US\$ net of fees. MSCI Golden Dragon Index includes net dividends. Past performance is not indicative of future results - please see regulatory information on p5. Source: Bloomberg, Charter Group. 31 May 2019

Portfolio positioning²



Risk³



Why Cederberg might not be right for you

- Our products are considered very risky; given our long-term focus and comfort with being different, **we are not for most investors**
- Chinese equities are highly volatile: declines of 70% are not uncommon
- Cederberg's returns have been more volatile than those of the index
- We manage a concentrated portfolio that typically differs substantially from those of our peers and from the market
- Our past returns are unlikely to be repeated in the long run
- Our strategy is only suitable for clients who invest for at least 10 years

Performance table¹

Net Returns in US\$	Class A	Index	Peer group	Percentile
<i>Annualised</i>				
Since inception (1/1/2012)	16%	8%	6%	100
5 years	16%	6%	5%	99
3 years	25%	12%	6%	100
2018	-13%	-15%	-23%	90
2017	75%	44%	36%	99
2016	-7%	5%	-5%	44
2015	6%	-7%	-5%	89
2014	3%	8%	3%	38
2013	42%	7%	10%	99
2012	9%	22%	18%	5
<i>Not annualised</i>				
Year to date	26%	5%	12%	93
3 months	4%	-7%	-5%	96
1 month	-11%	-11%	-9%	23

Major holdings²

Alibaba	Ecommerce	Noah	Asset management
Haidilao	Restaurants	Tencent	Social network
JD.com	Ecommerce	Wuliangye	Distillers
Jiangsu Yanghe	Distillers	Yihai	Condiments
Kweichow Moutai	Distillers	YY	Live streaming

Median portfolio characteristics⁴

P/E (2019e)	19x	ROE	23%
EV/EBIT (2019e)	14x	ROIC	15%
EPS growth (2019e)	21%	Market cap	US\$28bn
Net cash to equity	52%	Number of holdings	16
Dividend yield	2%	Top 10 holdings	79%

Key features⁵

Strategy	Long-only equity	Auditor	PwC
Domiciles	Cayman, Delaware	Custodian	Standard Chartered
Fund assets	US\$551mn	Administrator	Charter Group
Firm assets	US\$1.2bn	Cayman counsel	Maples & Calder
Peer group	Greater China Equity	US & UK counsel	Schulte Roth & Zabel
Benchmark	MSCI Golden Dragon	NAV - Class A	302.54
Expenses	14 bps (2018)	NAV - Class B	102.46
Turnover	14% (2018)	NAV - Class C	106.21
Email	info@cederbergcap.com	Phone	+44 207 871 7228

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On the road

In May, 20 investors from 9 countries joined the Cederberg team for a tour to the greater Beijing area. During the week, we met with ten experts and visited three AI companies, two healthcare factories, two consumer companies, one education company, one employment business, two new retail businesses and a hospital. In this letter, we share some of the highlights.

Day One: Beijing company visits

First up was Kuaishou, China's second most popular short video app with 300mn users of which 160mn typically visit it daily - for more than an hour on average. It was launched in 2011 and is currently unlisted; Cederberg holding **Tencent** is one of its major backers. "Grassroots" long tail content accounts for 70% of daily traffic (as opposed to the more polished, viral videos normally watched on its peer **Bytedance's** properties), as the company aims to create an inclusive community where everyone feels welcome - half of the Chinese population are relatively poor countryside dwellers, and 96.5% of people do not have a university degree. While Kuaishou has done a lot of things right in its short existence, it is still unclear to us what this business will look like five years down the line, especially given the competition for eyeballs from the likes of Bytedance.

New Oriental Education, the after-school tutoring company, made a compelling case for why its long-term growth opportunity remains immense. Due to low entry barriers, the industry is hugely fragmented: Beijing alone has more than 10,000 operators. However, the barriers to success are high, and getting higher. This is partly driven by increased regulation: small players usually don't have the necessary licenses, teacher certifications, nor government-compliant teaching facilities. It is also driven by brand differentiation: why save a little bit of money when your only child's future is at stake? While top-line growth has strong long-term visibility, we continue to engage with management and with other experts to ascertain how the company will achieve its margin targets.



Source: Cederberg Capital

The main emotion experienced while visiting online search company Baidu was a sense of relief that we sold it a few quarters ago. The long-term future of its core search business remains uncertain due to the growth of super-apps such as Wechat - which Baidu's search engine cannot access - and due to the challenges of monetising voice-activated search. While Baidu is viewed as a world-leader in AI, the company has experienced a steady exodus of talent, which begs the question whether it will be able to remain in pole position. Being driven around in its autonomous cars was fun though.

The visit to unlisted Sensetime, a leader in facial recognition, image searching, and intelligent monitoring, provided a more positive experience. The company has been profitable since 2017 and revenue growth has been north of 300% of late. Sensetime provides a case study for why several Chinese companies are likely to become AI world-leaders: it benefits from strong government support, excellent data and hardware, as well as a talented team consisting of 1,600 researchers - which include 150 PhDs and 40 university professors. As a country, China has prioritised AI, with good reason: according to PwC, it could contribute an additional \$7trn to the Chinese economy by 2030, compared with \$3.7trn and \$2.5trn for North America and Europe respectively. For those interested in learning more, we would recommend Kai-Fu Lee's book AI Superpowers.

Dinner at hotpot chain **Haidilao's** futuristic concept restaurant was one of the highlights of the week. Service quality remains off the charts, a function of the company's unique culture and incentive mechanisms - we have yet to find a company that better aligns employees' interests with those of shareholders. Likewise, a visit to its automated kitchen demonstrated the company's willingness to innovate. Lastly, as can be seen from the picture below, everything gets measured. All in all, a great experience and a great meal - the only thing that were missed (by some) were the duck tongues!



Source: Cederberg Capital

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Day Two: Shijiazhuang company visits

Shijiazhuang is the capital of Hebei Province and its largest city, with 11mn people living in the municipality. It is 260km south-west of Beijing, or roughly an hour by high-speed train. The purpose of the day trip was to provide a glimpse of the “real China” and to visit some healthcare facilities.

First up was a site visit to medical consumables company SSY. It is the third largest manufacturer of intravenous (IV) bags in China, boasting the largest single IV bag factory in the world (it will produce around 1.6bn bags this year). Because IV bags are relatively inexpensive but quite heavy once filled, scale matters immensely in this industry. As a result, the industry has been consolidating steadily, with SSY and its major shareholder Kelun Pharma driving the process. While the top 3 Chinese manufacturers have two-thirds domestic market share, consolidation has a long way to go: in the US, Baxter has c. 80% share. With regular dividends and share buybacks as well as a 10-year employee stock option program, SSY is a rare example of a shareholder-friendly Chinese manufacturing company. While its valuation is not currently that appealing, the company remains on our radar.



Source: Cederberg Capital

SSY contrasted sharply with our visit to Shineway, the manufacturer of doctor-prescribed Modern Chinese Medicine injections. While optically cheap on 10x earnings and a 5% dividend yield, regulatory headwinds, the absence of a moat and questionable governance mean we are likely to stay on the side-lines. Our group was bemused by a discussion about the “two kinds of share buybacks”: the traditional kind and the second (Shineway) kind, which could potentially be quite harmful to minority shareholders. Welcome to corporate China!

Day Three: Beijing company visits

Yihai, the hotpot condiments company, has recently branched out into other types of condiments and ready-to-eat food. During the meeting, our group enjoyed eating its ready-meal hotpot and rice products, which are self-heating - just add cold water and wait 10-15min. Tinkering and innovation are in the company's DNA, whether it is designing new products, fine-tuning employee

incentives, or improving alignment with its distribution partners. While near term multiples appear high, the company's growth potential remain undiminished, in addition to its business quality steadily improving. As an example of the latter: revenue contributed by sales to its sister company Haidilao has fallen from 60% at the time of its IPO three years ago to 43% in 2018.

Liepin, the “LinkedIn of China”, provided us with interesting insights into China's rapidly growing mid- to high-end job market and how companies like Liepin aim to create a win-win-win for jobseekers, employers and head-hunters. The company has a strong track record of delaying gratification, a rarity in China. Perhaps one to keep an eye on.

Next up was 21Vianet, the internet data centre provider. China's internet infrastructure is set to enjoy multi-year growth as AI, 5G and the cloud take off. Following a cash crunch and a highly dilutive equity issuance to Tsinghua University's investment arm, 21Vianet is now on a much better footing to participate in this growth. While valuations appear interesting, betting on a turnaround is typically risky, which – in this instance – is exacerbated by the capital intensity, customer concentration and competitive dynamics of the industry.

JD.com provided us with an update on its operations and long term plans. It has been a tough few years for JD: competition with the likes of Alibaba in general merchandise and apparel has been fierce, and internal management issues appear to have affected morale. Importantly, it appears that lessons have been learnt: operations have become more decentralised (which should reduce key person risk), the corporate structure has been flattened, and younger talent have been aggressively promoted. Capital allocation has also become much more focused on the core business, and share buybacks are likely to be meaningful given the recent share price weakness. Time will tell whether JD will emerge from its current crisis stronger than before. For now, we are giving management the benefit of the doubt.

Day Four: Expert meetings

The Cederberg team kicked the day off with a discussion regarding our process and philosophy, which was brought to life with case studies on our investments in the white spirits (*baijiu*) industry and in **Alibaba**. This set things up nicely for the next two experts, who discussed Alibaba's new retail strategy and the dominance of its finance industry affiliate Ant Financial respectively. In short: the juggernaut rolls on.

Dora Liu, Deloitte's managing partner for Eastern China, discussed innovation in China and the extent to which the government and corporates are embracing it. While numbers don't tell the full story, China had over 4,000 start-up incubators in 2017 already. This was followed by conversations with five domestic private equity and venture capital investors, who provided us with examples of the practical application of AI and big data in businesses ranging from pest control to water purification.

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Veteran Beijing-based investors and due diligence experts David Mahon and Matthew Forney explained what the trade war means for the typical Chinese company (very little), the role of the Chinese government (the “great business facilitator”) and what the Huawei incident implies for the global semiconductor industry (the situation is immensely complex).

We ended the trip with a visit to a medical facility owned by United Family Hospital, where the CEO provided us with fascinating insights into the growth opportunities and challenges in Chinese healthcare.

Conclusion

The purpose of the trip was to demystify China for our investors, to help them assess the investment opportunity set as it pertains to the Chinese consumer, and to familiarise them with Cederberg’s team and approach. From Cederberg’s point of view, we gained immensely valuable insights from 20 fresh pairs of eyes scrutinising our holdings and investment candidates. Given the trip’s success, we may well do something similar in the future.

Save-the-date: September 18th Investor Day

Cederberg clients and their advisers are invited to join us for our inaugural investor day on Wednesday September 18th 8.00-14.00 at Claridge’s, London. Please send confirmation of your attendance, indicating whether you have any dietary requirements , to investor.services@cederbergcap.com by July 1st.

If you have any questions, comments or ideas, we would love to hear from you.

Warm regards,

David Krige

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Regulatory information and risk warning

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Disclosure

¹ Past performance is not indicative of future performance. Investors whose reference currency differs from the US dollar may be subject to exchange rate movements that alter the value of their investments. MSCI Golden Dragon Total Return Index includes net dividends reinvested. Peer group is Bloomberg universe of equity funds with Greater China geographical focus. Source: Charter Group Admin, Bloomberg, Cederberg.

² Category definitions as per Cederberg. Source: Bloomberg, Cederberg

³ Upside Capture show the fund’s average return vs. the index’s average return for those months in which the index had a positive return. Downside Capture shows the fund’s average return vs. the index’s average return for those months in which the index had a negative return. Source: Bloomberg, Cederberg

⁴ Median portfolio characteristics are quoted as of 7 June 2019. Source: Bloomberg, Cederberg.

⁵ Data as of 31 May 2019. Expenses include all fund level expenses excluding investment management fees divided by the fund’s average AUM in 2018. Portfolio turnover is for 2018 and is calculated as the lower of all buy and sell transactions divided by fund’s average AUM. Source: Cederberg.

Investors should note investment involves risk. The price of units may go down as well as up and past performance is not indicative of future results. Investors should read the Fund’s Offering Memorandum for further details and risk factors, in particular those associated with investment in emerging markets. Information in this report has been obtained from sources believed to be reliable but Cederberg Capital does not guarantee the accuracy or completeness of the information provided by third parties.

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	Class A (closed for new subscriptions)	Class B	Class C	Delaware LP - Class B	Delaware LP - Class C
Inception date	1 Jan 2012	1 Jul 2018	1 Jul 2018	1 Aug 2018	1 Aug 2018
Status	Closed	Open	Open	Open	Open
Min initial investment	US\$100k	US\$100k	US\$100k	US\$1mn	US\$1mn
Subscription	Monthly	Monthly	Monthly	Monthly	Monthly
Redemption notice	30 days	90 days	90 days	180 days	180 days
Redemption fee (payable to the Fund)	3% if redemption within first 6m	5% if redemption first 3yrs, thereafter zero	N/A—3yr hard lockup	5% if redemption first 3yrs, thereafter zero	N/A—3yr hard lockup
Management fee	1.50% p.a.	1.25% p.a.	0%	1.25% p.a.	0%
Performance fee	20% of net alpha over MSCI Golden Dragon if Fund generated >6% p.a. US\$ returns; payable for the first time in Jan 2015 and annually thereafter	20% of net alpha over MSCI Golden Dragon if Fund generated >6% p.a. US\$ returns; payable for the first time in Jan 2022 and annually thereafter	25% of returns over 6% p.a. US\$ hard hurdle; payable for the first time in Jan 2022 and annually thereafter	20% of returns over 8% p.a. US\$ hard hurdle; payable annually	25% of returns over 6% p.a. US\$ hard hurdle; payable annually
High water mark	Yes	Yes	Yes	Yes	Yes
Investor level gates (max redemption per investor)	N/A	25% per quarter	25% per quarter	N/A	N/A
ISIN	KYG2030A1004	KYG2030A1186	KYG2030A1269	N/A	N/A
Sedol	BMM1R81	BFZYW5	BD31D23	N/A	N/A